

AR44



REICHOLD CHEMICALS (CANADA) LIMITED

ANNUAL REPORT 1964 RAPPORT ANNUEL

APR 15 1965

HIGHLIGHTS

	1964	1963
Net Sales	\$9,712,514	\$7,559,024
Net Profit from Operations	444,173	315,278
Earnings per Common Share from Operations ¹	2.92	2.03
Net Profit	444,173	249,964
Earnings per Common Share ¹	2.92	1.57
Book Value per Common Share ²	18.54	16.07

¹After deduction for dividend on preference shares.

²After deduction for redemption value of preference shares.

REICHHOLD CHEMICALS (CANADA) LIMITED

EXECUTIVE OFFICES	1919 Wilson Avenue, Weston, Ontario
CENTRAL DIVISION	1919 Wilson Avenue, Weston, Ontario
EASTERN DIVISION	Napoleon Street, Ste. Therese de Blainville, Quebec
VARCUM DIVISION	St. David Street, Lindsay, Ontario
WESTERN DIVISION	Douglas Street, Port Moody, British Columbia

DIRECTORS

R. J. Adams	Islington, Ont.
S. H. Baum	Greenwich, Conn., U.S.A.
L. O. Blackburn	Rosemere, Que.
G. L. Hagen	West Vancouver, B.C.
D. G. McNabb	Woodbridge, Ont.
O. J. Myers	Chappaqua, N.Y., U.S.A.
H. H. Reichhold	St. Thomas, Virgin Islands, U.S.A.
E. M. Skytta	Tacoma, Wash., U.S.A.*
R. T. Urich	White Plains, N.Y., U.S.A.
W. A. Weismann	Merrick, N.Y., U.S.A.

OFFICERS

H. H. Reichhold	<i>Chairman of the Board and Chief Executive Officer</i>
O. J. Myers	<i>President</i>
D. G. McNabb	<i>Senior Vice-President</i>
L. O. Blackburn	<i>Vice-President, Eastern Division</i>
G. L. Hagen	<i>Executive Vice-President and Vice-President and General Manager, Western Division</i>
E. M. Skytta	<i>Vice-President, Western Division*</i>
W. A. Weismann	<i>Vice-President, Sales Promotion</i>
L. Roy	<i>Vice-President, Sales, Eastern Division</i>
B. W. Shields	<i>Secretary</i>
R. J. Adams	<i>Treasurer</i>

*Deceased February 11, 1965

Registrar and Transfer Agent, Preferred Stock:

Registrar and Transfer Agent, Common Stock:

Auditors:

Goetz, Goetz and Foley, Detroit, Michigan

National Trust Co. Ltd., Toronto, Montreal, Vancouver

Peat, Marwick, Mitchell & Co., 4 King St. W., Toronto

PRESIDENT'S REPORT TO THE SHAREHOLDERS

In the ever changing field of synthetic resins and chemicals, a company's fortunes frequently turn on the quality of its sales force. In this respect your company is led by a mature and aggressive marketing team that has grown from a modest beginning in Toronto just fifteen years ago to a group of specialists capable of covering the entire Canadian market.

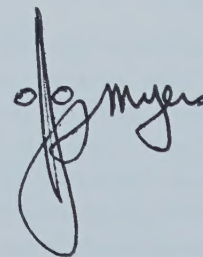
That 1964 has been a better year than 1963 is to a large extent due to the sales drive sustained by the men whose photographs appear in the following pages. It is to them we owe a large debt of thanks for the profitable movement of goods from our factories to an expanding list of satisfied customers. In turning forecasts into results, they have compiled a remarkable record in every phase of company sales.

Aside from the all-around effectiveness of the sales effort this past year, particularly noteworthy gains were made in molding compounds, phenolic resins to the forest products industry and emulsions to the building trades. An additional testimony to the ability of our sales force to blanket the Canadian market is the unusual success of our formaldehyde program. To keep up with our captive con-

sumption in the West and our expanding sales in Central and Eastern Canada, we have had to add capacity to formaldehyde production units on both coasts.

In view of the sound tenor of the economy, we are confident that our marketing team will continue to expand sales in 1965.

I am extremely sorry to report that Mr. E. M. Skytta, Vice-President and Director of the company, passed away February 11th. Ernie was a long-time employee of Reichhold and to a large measure responsible for the founding of the Western Division of Reichhold Chemicals (Canada) Limited. His counsel and friendship will be sorely missed.



O. J. MYERS
PRESIDENT

RAPPORT DU PRÉSIDENT AUX ACTIONNAIRES

Dans le domaine toujours fluctuant des résines synthétiques et des produits chimiques, la destinée d'une société varie souvent selon le degré d'excellence de ses représentants de vente. A cet égard, votre société est conduite par une équipe d'organisation du marché agressive et expérimentée qui s'est transformée depuis ses modestes débuts, il y a à peine quinze ans, en un groupe de spécialistes capables de couvrir le marché canadien en entier.

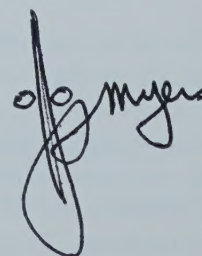
Si l'année 1964 fut meilleure que l'année 1963, il en est dû, dans une grande mesure, à l'effort de vente soutenu par les hommes dont les photographies paraissent aux pages suivantes. C'est à ces derniers que nous devons témoigner notre gratitude pour l'expédition profitable des produits de nos usines à un groupe croissant de clients satisfaits. En traduisant nos prévisions en résultats, ils composèrent un dossier remarquable dans chaque section des ventes de notre société.

En plus de l'efficacité générale des tentatives de vente de l'an dernier, des avances particulièrement importantes furent obtenues dans les poudres à mouler, les résines phénoliques pour l'industrie des produits forestiers et les émulsions pour l'industrie du bâtiment. Le succès inhabituel de notre programme de formaldéhyde témoigne aussi de la compétence de nos représentants à couvrir tout

le marché canadien. Afin d'être au niveau de notre consommation captive dans l'Ouest et de notre volume croissant de ventes au Centre et dans l'Est du Canada, nous avons dû augmenter la capacité de nos unités de production de formaldéhyde sur les deux Côtes.

Etant donné le cours solide de notre système économique, nous sommes persuadés que notre équipe d'organisation du marché continuera d'augmenter notre volume de ventes en 1965.

Je regrette infiniment d'avoir à vous signaler le décès, le 11 février, de M. E.M. Skytta, vice-président et directeur de la société. Ernie était un employé de longue date de Reichhold et fut en grande partie responsable de la création de la Division de l'Ouest de Reichhold Chemicals (Canada) Limited. Le manque de ses conseils et de son amitié sera fort éprouvé.



O. J. MYERS
PRÉSIDENT

REICHHOLD CHEMICALS (CANADA) LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

Year ended December 31, 1964
(with comparative figures for 1963)

	1964	1963
Net sales	\$9,712,514	7,559,024
Cost of sales	7,307,988	5,717,490
Gross profit	2,404,526	1,841,534
Selling, general and administrative expenses	1,375,313	1,075,981
Net operating profit	1,029,213	765,553
Other expenses (income):		
Debenture interest (note 3)	46,875	42,625
Other interest	1,321	4,091
Expenses of idle Phthalic Anhydride Plant	66,971	91,446
Loss on disposal of fixed assets	36,835	1,943
Sundry — net	(17,969)	(6,578)
	134,033	133,527
Profit before income taxes and special item	895,180	632,026
Provision for income taxes:		
Current	289,307	297,548
Deferred (note 4)	161,700	19,200
	451,007	316,748
Net profit before special item	444,173	315,278
Write-down of idle plant and equipment, net of deferred taxes on income (note 2)	—	65,314
	—	65,314
Net profit	444,173	249,964
Earned surplus at beginning of year	1,183,181	1,000,092
	1,627,354	1,250,056
Deduct dividends:		
50¢ per share on preference shares	23,750	23,750
45¢ (1963 - 30¢) per share on common shares	64,687	43,125
	88,437	66,875
Earned surplus at end of year	\$1,538,917	1,183,181
Included in the above statement are the undernoted expenses:		
Depreciation	\$ 329,070	284,841
Directors' salary and remuneration	66,375	55,800

See accompanying notes to consolidated financial statements.

REICHHOLD CHEMICALS (CANADA) LIMITED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

December 31, 1964

(with comparative figures for 1963)

ASSETS

Current assets:	1964	1963
Cash	\$ 73,035	83,863
Marketable securities, at cost (quoted value \$20,750; 1963 - \$20,313) .	25,000	25,000
Accounts receivable:		
Trade	1,425,392	1,075,075
Other	9,177	6,210
	<u>1,434,569</u>	<u>1,081,285</u>
Less allowance for doubtful accounts	60,000	45,000
Net receivables	<u>1,374,569</u>	<u>1,036,285</u>
Inventories, at the lower of cost or market	1,383,736	1,085,671
Prepaid expenses	119,032	77,571
Total current assets	<u>2,975,372</u>	<u>2,308,390</u>
Fixed assets, (notes 1 and 2):		
Land, buildings and equipment	4,447,734	3,748,995
Less allowance for depreciation	1,952,883	1,676,763
	<u>2,494,851</u>	<u>2,072,232</u>
Idle plant and equipment at cost, less allowance for depreciation . .	169,018	282,158
Net fixed assets	<u>2,663,869</u>	<u>2,354,390</u>
Excess of cost over recorded equity of subsidiary at date of acquisition .	32,324	32,324
	<u>\$5,671,565</u>	<u>4,695,104</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Reichhold Chemicals (Canada) Limited and subsidiary as of December 31, 1964 and the consolidated statement of profit and loss and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and

consolidated statement of profit and loss and earned surplus present fairly the financial position of the companies at December 31, 1964 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 16, 1965

PEAT, MARWICK, MITCHELL & Co.
Chartered Accountants

LIABILITIES

Current liabilities:	1964	1963
Accounts payable and accrued expenses	\$1,000,856	594,518
Due to associated company — Reichhold Chemicals Inc., (U.S. funds \$352,808; 1963 - \$219,858)	379,198	237,446
Income and other taxes payable	212,694	251,759
Total current liabilities	1,592,748	1,083,723
Secured sinking fund debentures (note 3):		
5% due January 1, 1967	100,000	150,000
5½% due January 1, 1973	450,000	450,000
	550,000	600,000
Deferred taxes on income (note 4)	363,900	202,200
Shareholders' equity:		
Capital stock (note 5):		
5% redeemable cumulative preference shares of a par value of \$10 each.		
Authorized and issued 47,500 shares	475,000	475,000
Common shares of a par value of \$2 each.		
Authorized 762,500 shares; issued 143,750 shares	287,500	287,500
	762,500	762,500
Contributed surplus	863,500	863,500
Earned surplus	1,538,917	1,183,181
Total shareholders' equity	3,164,917	2,809,181
	<u>\$5,671,565</u>	<u>4,695,104</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

O. J. MYERS, *Director*

D. G. McNABB, *Director*

REICHHOLD CHEMICALS (CANADA) LIMITED AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1964

1. FIXED ASSETS

The fixed assets of the company are recorded at cost less allowance for depreciation except for the fixed assets of the Varcum Division which assets are recorded on the basis of an appraisal made by the Manufacturers' Appraisal Company as of July 1, 1959 in the amount of \$224,591 with subsequent additions at cost. Allowance for depreciation has been made from July 1, 1959 on the total of appraisal amount at that date and on the cost of subsequent additions.

2. IDLE PLANT AND EQUIPMENT

In October, 1961 the Phthalic Anhydride Plant was shut down when conditions made it unprofitable to operate. During 1963 a portion of this plant was converted to another operation, equipment with a net book value of approximately \$96,000 together with additional depreciation of about \$40,000 was written off net of deferred taxes on income, and the remaining portion of the plant and equipment was retained as a standby facility in anticipation of the company again producing phthalic anhydride. Depreciation of the idle plant and equipment is being provided at double the normal rates.

3. SECURED DEBENTURES

Principal instalments of \$50,000 on the secured sinking fund debentures are payable annually on January 1 each year to be applied first to the 5% issue. The instalment due January 1, 1965 was paid prior to December 31, 1964. Interest in addition to 5¼% is payable on the 5¼% secured debentures at the rate of ¾ of 1% per annum for each \$25,000 by which the net profit of the company (before charging the additional interest) exceeds \$100,000, to a maximum of 3%. Additional interest of 3% has been provided in the accounts with respect to 1964. The debentures are secured by a floating charge on all assets of the company excepting assets to a maximum of \$300,000 which may be used as security for current obligations.

The supplemental deed of trust dated October 15, 1962, securing the debentures, states that dividends, other than stock dividends, declared subsequent to December 31, 1961 are limited in the aggregate to 66⅔% of the consolidated net profits accrued subsequent to December 31, 1961 plus \$75,000. Surplus not restricted under this provision of the indenture amounted to \$502,052 at December 31, 1964. There is a further provision that no dividends other than stock dividends, may be declared or paid if the declaration or payment thereof would reduce the consolidated net current assets of the company below \$400,000. At December 31, 1964 the consolidated net current assets of the company amounted to \$1,382,624.

4. DEFERRED TAXES ON INCOME

Deferred taxes on income of \$161,700 in the statement of profit and loss and earned surplus result from claiming for income tax purposes an amount greater than depreciation recorded in the accounts. This amount is included in "Deferred taxes on income" in the balance sheet and is applicable to future periods in which amounts claimed for depreciation for tax purposes may be less than amounts recorded in the accounts.

5. CAPITAL STOCK

Under date of February 20, 1964 supplementary letters patent were obtained altering the voting rights of the preference shares, which formerly had carried five votes each under all circumstances, to provide that such shares would carry the voting rights of five votes each only if dividends on the preference shares were in arrears two or more years. The premium of 5% on redemption of the preference shares and the rate of dividends of 5% remained unchanged but such dividends became cumulative rather than non-cumulative. As a result of such change, the company qualified as having a "degree of Canadian ownership" as defined in the Income Tax Act (Canada) with respect to 1963 and 1964.

No change was made in the voting rights attached to the common shares which carry one vote each.

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

Funds were provided from:	1964	1963
Net profit for the year	\$444,173	\$249,964
Add charges not requiring cash expenditures:		
Depreciation	329,070	244,887
Loss on disposal of fixed assets	36,835	1,943
Write down of plant, net of additional depreciation \$39,954 and deferred taxes	—	65,314
Provision for deferred income taxes	161,700	19,200
	<u>971,778</u>	<u>581,308</u>
Funds were applied as follows:		
Additions to plant and equipment	675,383	480,757
Retirement of long term debt	50,000	130,718
Dividends	88,438	66,875
	<u>813,821</u>	<u>678,350</u>
Resulting in increase (decrease) in working capital	<u>\$157,957</u>	<u>(\$97,042)</u>

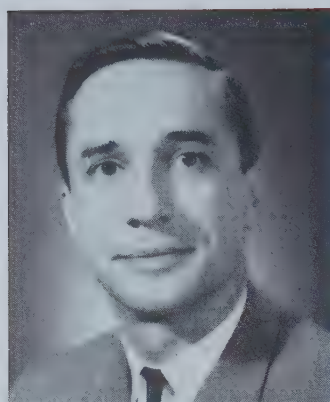
CONSOLIDATED FINANCIAL REVIEW

(thousands of dollars)

	1964	1963	1962	1961	1960
Net Sales	\$9,713	\$7,559	\$6,684	\$6,436	\$5,917
Profit (loss) before income, taxes and special items	895	632	355	(120)	78
Special profit (loss) items	—	(65)	110	—	—
Net profit (loss) after income taxes	444	250	247	(80)	39
Expenditures on Fixed Assets	675	481	154	188	344
Provision for depreciation	329	285	231	229	209
Fixed Assets at net book value	2,664	2,354	2,257	2,349	2,417
Earnings per common share ¹	\$ 2.92	\$ 1.57	\$ 1.55	\$ (.64)	\$.01
Dividends paid on common shares	\$.45	\$.30	\$.15	\$.15	\$.30
Book value per common share ²	\$18.54	\$16.07	\$14.80	\$13.39	\$14.18

¹After deduction for dividend on preference shares.

²After deduction for redemption value of preference shares.



YVES BAILLARGEON,
Toronto

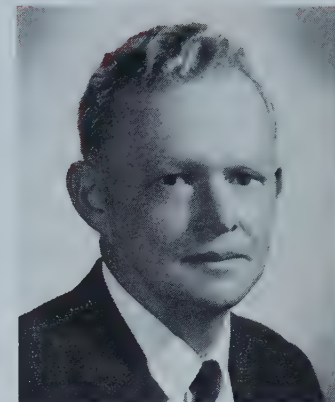
Yves joined our company in 1956 at Ste. Therese and was transferred to Toronto in 1958 to sell our products to the plywood, particle board and adhesive manufacturers in Ontario. In 1962 he took over the additional responsibility of the sales of the relatively new items in the Reichhold line, Varcum resins and phenolic molding compounds.



JOHN W. BIGGAR,
Port Moody

After twelve years of service with RCI, South San Francisco, working in control and as pilot plant supervisor for alkyds, polyesters, phenolics and ureas, he was invited in 1963 to handle sales to the paint and related industries.

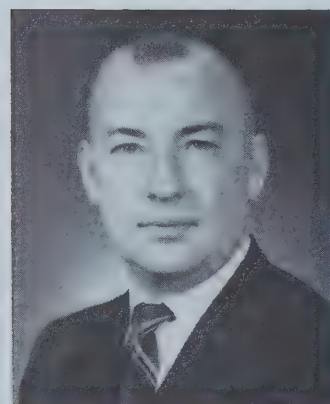
Items sold by John include surface coatings, plastic molding compounds; adhesives for plastic and concrete work; processed oils; specialties for the soap and paper industries.



RALPH A. CHILD,
Port Moody

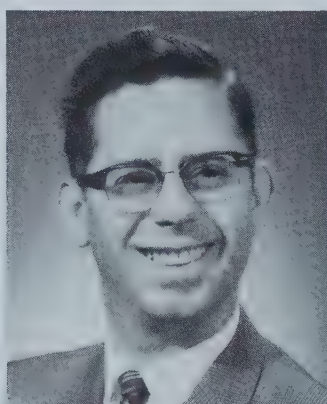
In 1956, after twenty years of experience in the technical and production phases of plywood manufacturing, Ralph joined Reichhold. He now heads the sales and service end of the plywood adhesive business.

The adhesive Sales Department is also responsible for sales of impregnated paper products now manufactured at the Port Moody plant.



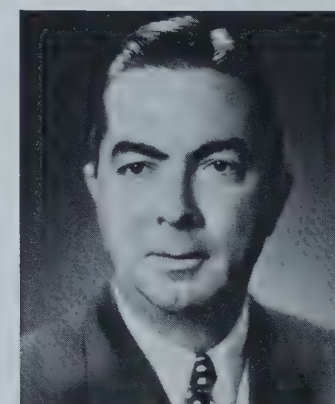
JAMES A. MCGOOGAN,
Toronto

Jim joined us in 1962 and until recently was sales administrator. In this capacity he familiarized himself with many of our products and customers in this area. Several months ago he transferred his activities to the sales force and is now calling on a large number of paint and specialty manufacturers in the Toronto area.



WILLIAM H. RIVERS,
Toronto

Bill joined our Toronto laboratory staff in March, 1955 after several years experience with a Toronto paint manufacturer. After one year he joined our sales force and is now responsible for the sales of products to the paint, floor polish and specialty chemical manufacturers. The principal products he sells are alkyd resins, polyvinyl acetate, acrylic and polystyrene emulsions.



LOUIS ROY,
Ste. Therese

Louis joined Reichhold in 1951 with a forestry engineering background. He is responsible for sales of polyesters to the plastic industry, phenolic molding compounds, and adhesives for the plywood and particle board industry. For Expo 67, Louis is doing promotional work with the plastics industry to ensure maximum representation of polyester reinforced plastics.



FRASER S. COWIE,
Port Moody

The Port Moody laboratory served as a starting point for Fraser who joined the organization in 1961. His technical background, along with sales experience, qualify him for the position he now holds as Sales Representative in charge of Plastics in Western Canada as well as Sales Representative for all products in Alberta and Saskatchewan.



JACQUES L. LEVASSEUR,
Ste. Therese

Jacques has been with the company since early 1964. He is well known in the Quebec paint industry where he handles Reichhold's complete line of chemical coating resins, including emulsions. He also calls on floor polish manufacturers and specialty chemical manufacturers in Eastern Canada.



CLIVE T. MARSDEN,
Toronto

Clive has spent several years in our reinforced plastics laboratory. Since 1961 he has been responsible for the sales of polyester resins, epoxy resins, foams and related materials to the manufacturers of fibreglass boats, automotive patching compounds and corrosion resistant tanks and ducts.



W. A. WEISMANN,
White Plains, N.Y.

Arthur is Sales Promotion Manager of Reichhold Chemicals Incorporated and a Vice-President of Reichhold, Canada. His many years of association with the paint and related industries in the United States and Canada has made his work of great value to our growing company.

10 YEARS OF SALES GROWTH

10 Millions of Dollars



MATERIALS ROSTER

ABRASIVES — BONDED AND COATED ADHESIVES

BRAKE AND CLUTCH LININGS BUILDING PRODUCTS CASTINGS

CHEWING GUM FURNITURE, PLYWOOD, FLOORING, HARDBOARD AND PARTICLE BOARD

INSULATION — THERMAL, ACOUSTICAL AND ELECTRICAL

LAMINATES

LEATHER

LINOLEUM AND FLOOR TILE

MOLDING COMPOUNDS

PAINTS, VARNISHES AND LACQUERS

PAPER

PRINTING INKS

REINFORCED PLASTICS

TEXTILES

VINYL PRODUCTS WAXES AND POLISHES

PLYOPHEN and VARCUM phenolic resins.

EPOTUF epoxy resins; PLYOPHEN and VARCUM phenolic resins; SUPER-BECKACITE pure phenolic resins.

PLYOPHEN and VARCUM phenolic resins.

ALSYNITE translucent reinforced plastic panels.

COROVIT self-curing core binders; FOUNDREZ phenolic and urea resins; coRCIment core oils; CO-RELEES sand conditioning agent; REICOTE sand processing agent.

SYNTHE-COPAL ester gums.

DIARON powdered melamine adhesives; FORASITE phenolic adhesives; PLYACIEN protein glues; PLYAMINE and FORAMINE urea-formaldehyde adhesives; PLYAMUL PVAc adhesive bases; PLYOPHEN phenol- and resorcinol-formaldehyde adhesives.

EPOTUF epoxy resins; PEROXIDOL polymeric plasticizers; PLYOPHEN and VARCUM phenolic resins; POLYLITE polyester resins; POLYLITE polyurethane foam resins.

EPOTUF epoxy resins; PLYOPHEN cresol, phenol- and resorcinol-formaldehyde resins and varnishes; POLYLITE polyester resins.

BECKOSOL alkyd resins; PLYOPHEN resorcinol-formaldehyde resins; SUPER-BECKACITE pure phenolic resins; SYNTHE-COPAL ester gums; SYNTHMUL acrylic emulsions.

BECKOSOL alkyd resins; PENTACITE pentaerythritol resins; RCI inorganic chemical pigment colors.

EPOTUF epoxy resins; PLYOPHEN and VARCUM phenolic resins; POLYLITE polyester resins.

BECKACITE (1) fumaric, (2) maleic and (3) modified phenolic resins; BECKAMINE urea-formaldehyde resins; BECKOLIN synthetic oils; BECKOPOL modified phenolic resins; BECKOSOL (1) phenolated, (2) phthalic-free, (3) rosin modified, (4) pure drying and (5) pure non-drying alkyd resins; EPOTUF epoxy resins; KOPOL, processed Congo copals; LUSTRASOL acrylic and acrylic-modified alkyd solutions; PENTACITE pentaerythritol resins; POLYLITE polyester resins; STYRESOL styrenated alkyd resins; SUPER-BECKACITE pure phenolic resins; SUPER-BECKAMINE melamine-formaldehyde resins; SUPER-BECKOSOL isophthalic acid alkyd resins; SYNTHE-COPAL ester gums; SYNTHMUL acrylic and alkyd emulsions; WALLKYD pure drying alkyd resins (for alkyd flat wall vehicles); WALLPOL PVAc emulsions; WATEREZ alkali-dispersible modified alkyd resins; RCI inorganic chemical pigment colors.

WETstrez urea-formaldehyde resins; PLYAMUL PVAc emulsions; STYRESOL styrenated alkyd resins; SYNTHMUL acrylic emulsions; RCI inorganic pigment colors.

BECKACITE (1) fumaric, (2) maleic and (3) modified phenolic resins; BECKOLIN synthetic oils; BECKOPOL modified phenolic resins; RCI inorganic chemical pigment colors.

EPOTUF epoxy resins; POLYLITE polyester resins; PLYOPHEN and VARCUM phenolic resins; MEK peroxide; BPO paste and granules; MODIGLASS fibrous glass products.

FABREZ cyclic ethylene urea and urea-formaldehyde resins; SYNTHMUL alkyd resins and emulsions; PLYAMUL and WALLPOL PVAc emulsions.

STAFLEX plasticizers and stabilizers; PEROXIDOL epoxy plasticizers. BECKACITE modified phenolic and maleic resins; SUPER-BECKACITE pure phenolic resins; SYNTHE-COPAL ester gums; SYNTHMUL acrylic emulsions; WATEREZ alkali-dispersible modified alkyd resins.
